



SEDIBENG DISTRICT MUNICIPALITY

Sedibeng District Municipality Annual Financial Statements for the year ended 30 June 2012



Sedibeng District Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

The following is included in the scope of operation	District Municipality
Grading of local authority	Grade 11 Local Authority
Chief Finance Officer (CFO)	Mr Brendon Scholtz
Registered office	Municipal Offices Civic Centre Cnr. Beaconsfield & Leslie street Vereeniging 1930
Business address	Municipal Offices Civic Centre Cnr. Beaconsfield & Leslie street Vereeniging 1930
Postal address	PO Box 471 Vereeniging 1930
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa
Executive Mayor	Councilor MS Mofokeng
Speaker	Councilor BJ Modisakeng
Chief Whip	Councilor MC Sale
Members of Mayoral Committee	Councilor PB Tsotetsi Councilor ME Tshokolibane Councilor TS Maphalla Councilor B Mncube Councilor FMA Mnguni Councilor MD Raikane Councilor YJ Mahommed Councilor SA Mshudulu

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MMC	Member of the Mayoral Committee
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
GAMAP	Generally Accepted Municipal Accounting Practice
PPE	Property Plant and Equipment
SCM	Supply Chain Management

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are responsible for reporting on the fair presentation of the annual financial statements.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 34, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012:

Mr Yunus Chamda

Sedibeng District Municipality

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Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Incorporation

The municipality was incorporated on 01 January 1988 and obtained its certificate to commence its business as a regional services council on the same day.

2. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated surplus of R172,660,370 and that the municipality's total assets exceed its liabilities by R175,352,201.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

4. Accounting Officer

Name	Nationality
Mr Yunus Chamda	RSA

5. Bankers

The current bankers appointed by Council through a formal tender process are ABSA Bank Limited.

6. Auditors

The Auditor General will continue in office for the next financial period.

7. Cost cutting measures

Following the global economic crisis of 2009 and in line with MFMA Circular 48, the executive management of Sedibeng District Municipality had taken the decision to make conscientious efforts to increase revenue and decrease operating expenses by:

Increasing revenue through	Cost containment measures
<ul style="list-style-type: none">– Optimizing all revenue streams;– Reviewing billing processes;– Rigorously applying credit control;– Tightening internal control measures and SCM processes	<ul style="list-style-type: none">– Educating staff to be more conscientious– Better cash management– Claiming discounts from creditors/ suppliers– Institutionalising discussion on under-provision of EMS grant– Institutionalising discussion on under-provision of equitable share– Value-for-money spending and application of economies-of-scale procurement– Closer monitoring of repairs & maintenance will lead to reduction in productivity losses– Reducing & reviewing discretionary spending

Sedibeng District Municipality

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Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
<u>Current Assets</u>			
Construction of assets in progress	4	32,053,089	-
Inventories	5	307,522	370,013
Receivables from exchange transactions	6	5,434,493	22,889,557
VAT receivable	7	1,125,614	4,590,801
Cash and cash equivalents	8	12,491,996	42,428,705
		51,412,714	70,279,076
<u>Non-Current Assets</u>			
Property, plant and equipment	2	184,233,785	192,591,725
Intangible assets	3	1,923,053	2,319,690
		186,156,838	194,911,415
Total Assets		237,569,552	265,190,491
Liabilities			
<u>Current Liabilities</u>			
Payables from exchange transactions	12	46,668,534	57,936,799
Unspent conditional grants and receipts	10	12,793,066	33,740,053
Provisions	11	2,755,751	1,970,951
		62,217,351	93,647,803
Total Liabilities		62,217,351	93,647,803
Net Assets		175,352,201	171,542,689
Net Assets			
Accumulated surplus		175,352,201	171,542,689
Total Net Assets		175,352,201	171,542,689

Sedibeng District Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Sale of goods		1,217,207	321,965
Rental of facilities and equipment		7,799,499	7,695,109
Income from agency services		6,963,365	6,496,536
Licences and permits		59,605,708	49,309,873
Government grants and subsidies	15	292,212,987	290,229,183
Other income	16	1,380,793	1,163,667
Interest received – investment revenue	21	2,221,854	6,237,003
Gains on disposal of assets		1,161,731	107,092
Total Revenue		372,563,144	361,560,428
Expenditure			
Employee related cost	18	(228,392,383)	(232,230,971)
Remuneration of councilors	19	(9,407,075)	(8,368,655)
Depreciation and amortisation	22	(23,602,041)	(17,198,678)
Debt impairment	20	(93,999)	(37,761)
Public participation		(8,724)	(140,129)
Repairs and maintenance		(6,077,486)	(7,877,686)
Contracted services	25	(42,723,077)	(37,072,909)
Grants and subsidies paid	26	(250,000)	(84,710,637)
General expenses	17	(57,583,246)	(88,267,630)
Total Expenditure		(368,138,031)	(475,905,056)
Surplus (deficit) for the year		4,425,113	(114,344,628)

Sedibeng District Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

	Notes	Accumulated surplus	Total net assets
Figures in Rand			
Balance at 01 July 2010		251,206,365	251,206,365
Correction of errors	30	35,167,909	35,167,909
Restated Balance at 01 July 2010		282,579,886	286,374,274
<u>Changes in net assets</u>			
Transfer from /(to) Reserves	9	(486,956)	(486,956)
Net income (losses) recognised directly in net assets		(486,956)	(486,956)
Surplus for the year		(118,084,260)	(118,084,260)
Correction of errors	30	3,739,632	3,739,632
Restated Surplus for the year		(114,344,628)	(114,344,628)
Total recognised income and expenses for the year		(114,831,584)	(114,831,584)
Balance at 01 July 2011		171,542,689	171,542,689
<u>Changes in net assets</u>			
Surplus for the year		4,425,113	4,425,113
Transfer from /(to) Reserves	9	(615,601)	(615,601)
Total changes		3,809,512	3,809,512
Balance at 30 June 2012		175,352,201	175,352,201

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Grants		271,266,000	278,718,934
Interest income		2,221,854	6,237,003
License receipts		195,301,700	164,082,041
Other receipts		78,412,634	142,380,094
		547,202,188	591,418,072
Payments			
Employee costs		(237,799,458)	(240,629,523)
License authority		(138,529,619)	(101,446,335)
Other suppliers		(186,379,598)	(289,194,870)
		(562,708,675)	(631,270,728)
Net cash flows from operating activities	27	(15,506,487)	(39,852,656)
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(15,135,073)	(35,718,666)
Proceeds from disposal of property, plant and equipment	2	1,569,276	273,656
Purchase of other intangible assets	3	(864,426)	(245,948)
Net cash flows from investing activities		(14,430,223)	(35,690,958)
Net increase/(decrease) in cash and cash equivalents		(29,936,710)	(75,543,614)
Cash and cash equivalents at the beginning of the year		42,428,705	117,972,319
Cash and cash equivalents at the end of the year	8	12,491,995	42,428,705

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost basis unless otherwise stated. Under this basis the effects of transactions and other events are recognised when they occur and are recorded in the financial statements within the period to which they relate.

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) prescribed by the Minister of Finance in terms of General Notices 991 of 2005 and General Notice 516 of 2008, including any interpretations and directives issued by the Accounting Standards Board

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Municipal Accounting Practices (SA GAMAP) including any interpretations of such statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General Notice 1290 of 2008 exempted compliance with certain of the above-mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual statements.

These accounting policies are consistent with those of the previous financial year.

Offsets

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand and are rounded to the nearest Rand.

1.3 SIGNIFICANT ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

These annual financial statements have been prepared on a going concern basis.

In preparing the annual financial statements to conform with the standards of GRAP, management is required to make estimates, judgments and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment are inherent in the formation of estimates. Actual results in the future may differ from these estimates.

All significant estimates, judgments and underlying assumptions are reviewed on constant basis. All necessary revisions of significant estimates are recognised in the period during such revisions as well as in any future affected periods.

Specific areas where these significant estimation uncertainties as well as critical judgments and assumptions were made in the application of accounting policies with the most significant effect in the annual financial statements are included in the following notes:

Note 11: Provisions

Note 29: Contingencies

Note 28: Lease classification

Note 20: Debt Impairment

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Accounting Policies

1.4 GOVERNMENT GRANT

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.5 PROPERTY, PLANT & EQUIPMENT

An item of property, plant and equipment which qualifies for recognition as an asset has been initially be measured at cost except where land and buildings have been revalued at fair value at date of the revaluation less subsequent depreciation.

The cost of an item of property, plant and equipment comprises of its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to working condition for its intended use.

Where an item of property, plant and equipment was donated, is initially recognised at its fair value as at the date of acquisition.

Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at date of acquisition.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed.

Incomplete construction work is stated at historical cost. Depreciation only commences when the assets is ready to be used.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Municipality's accounting policy, refer to note 4. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Subsequently property, plant and equipment, are stated at cost, less accumulated depreciation and accumulated impairment losses.

Land is not depreciated as it is regarded as having an infinite life.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the Statement of Financial Performance.

Depreciation is calculated on the asset's depreciable amount, using the straight-line method over the useful life of the asset. The depreciable amount is determined after deducting the residual value of the asset from its cost. The depreciation charge is recognised as an expense unless it is included in the carrying amount of another asset under construction. Assets will be depreciated according to their annual depreciation rates based on the following estimated useful life:

Infrastructure Assets	Years
Street names, signs and parking meters	5
Water reservoirs and reticulation	15 – 20

Community Assets	Years
Parks and gardens	10 -30

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Accounting Policies

Sport fields	20 – 30
Community halls	30
Recreation facilities	20 – 30

Other Assets	Years
Motor vehicles	5
Plant and equipment	2 – 15
Security measures	3 – 10
Buildings	30
IT equipment	3 – 5
Office equipment	3 - 7
Specialised vehicles	10

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimates unless expectations differ from the previous estimate.

The municipality has complied with Directive 4 of February 2008 and applied the requirements of the standard of GRAP 3, Accounting policies, Changes in accounting estimates and errors on the standard on Property, Plant and Equipment, GRAP 17, on initial adoption of the standard.

1.6 INTANGIBLE ASSETS

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Refer to impairment of assets accounting policy 1.7

Where an intangible asset has been acquired at no or for a nominal cost, its cost is its fair value on the date of acquisition.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands are recognised in the statement of financial performance as incurred.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Municipality and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

1.6.1 Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of financial performance when incurred.

Development activities involve a plan or design for the production of new or substantially new improved products and processes.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the municipality intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Other development expenditure is recognised in the statement of financial performance as incurred.

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Accounting Policies

1.6.2 Amortisation

Amortisation is recognised in the statement of financial performance on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Item	Useful Life
Computer software	3 Years

Each item of intangible asset is amortised separately.

Intangible assets that have an indefinite useful life are tested for impairment annually.

The estimated useful life, the amortisation method and the residual values are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

1.7 IMPAIRMENT OF FINANCIAL ASSETS

Impairment of Non-financial assets

Non-Financial assets, excluding investment property and inventories, are assessed at each reporting date to determine whether there is an indication that the carrying amount of the asset may be impaired. If such an indication exists, the recoverable amount of the asset is determined. Irrespective of whether an indication of impairment exists, the recoverable amount of goodwill, indefinite-life intangible assets and intangible assets not available for use are determined annually.

The recoverable amount of an asset is the higher of its fair value less costs to sale and its value in use. In determining the value in use, the estimated future cash flows of the asset is discounted to their present value based on pre-tax discount rates that reflects current market assessments of the time value of money and the risks that are specific to the asset. If the value in use of an asset for which there is an indication of impairment cannot be determined, the recoverable amount of the cash-generating unit to which the asset belongs is determined. An asset's cash generating unit is the smallest group of identifiable assets that includes the asset and that generates cash inflows from continuing use that are largely independent from cash inflows from other assets.

An impairment loss is recognised in the statement of financial performance when the carrying amount of an individual asset or of a cash-generating unit exceeds its recoverable amount. If the loss relates to the reversal of a previous revaluation surplus, it is recognised in equity. Impairment losses recognised on cash-generating units are allocated on a pro rata basis, to the assets in the cash-generating unit.

Impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount of the asset or cash-generating unit. Reversals of impairment losses on cash-generating units are allocated on a pro rata basis to the assets in the unit. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been recognised in the past. Reversals of impairment losses are recognised directly in the statement of financial performance.

Impairment of Monetary assets

A provision for impairment is created when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the receivables. The carrying value is reduced through the use of a provision and is recognised as a charge to the statement of financial performance. When a receivable is uncollectible, it is written off against the provision. Any subsequent recoveries of amounts previously written off are credited directly in the statement of financial performance.

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An available for sale financial asset is impaired when there is a significant or prolonged decline in the fair value of the asset below its cost price or amortised cost. At such a point, a cumulative gains or losses that have been accumulated in equity are removed from equity as a reclassification adjustment and are recognised in the statement of financial performance. Any subsequent impairment losses are recognised directly in the statement of financial performance.

Where Held-to-maturity investments have been impaired, the carrying value is adjusted by the impairment loss and this is recognised as an expense in the period that the impairment is identified.

1.8 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets or disposal groups are classified as non-current assets held for sale when the carrying amount of the asset or disposal group is to be recovered principally through a sale transaction rather than through continuing use.

Immediately before the classification of the asset or disposal group as held for sale, the carrying amount of the assets, or the assets and liabilities in the disposal group, are measured in accordance with applicable GRAP standards. Subsequently the asset or disposal group is measured at the lower of its carrying amount and fair value less cost to sell, with any adjustment recorded in the statement of financial performance.

The municipality complied with Directive 4 of February 2008, on initial adoption of the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations, GRAP 100, and has done so prospectively, for all non-current assets (or disposal groups), that meet the criteria to be classified as held for sale.

1.9 LEASES

Leases that transfer substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease payments are recognised as an expense on a straight-line basis over the lease period.

The Municipality as Lessee

Assets leased in terms of finance lease agreements are capitalised at amounts equal at the inception of the lease to the fair value of the leased property, or lower, at the present value of the minimum lease payments. Capitalised leased assets are depreciated in accordance with the accounting policy applicable to property, plant and equipment; refer to property, plant and equipment policy 1.5. The corresponding rental obligations, net of finance charges, are included in long-term borrowings. Lease finance charges are amortised to the statement of financial performance (unless they are directly attributable to qualifying assets) over the duration of the leases so as to achieve a constant rate of interest on their remaining balance of the liability.

Obligations incurred under operating leases are charged to the statement of financial performance in equal installments over the period of the lease, except when an alternative method is more representative of the time pattern from which benefits are derived.

1.10 FINANCIAL INSTRUMENTS

Financial instruments are initially measured at fair value, plus, in the case of financial instruments not at fair value through profit or loss, transaction costs. The fair value of a financial instrument that is initially recognised is normally the transaction price, unless the fair value is evident from the observable market data. The municipality uses a discounted cash flow model which incorporates entity-specific variables to determine the fair value of financial instruments that are not traded in an active market. Differences may arise between the fair value initially recognised in (which in accordance with IAS 39, is generally the transaction price) and the amount initially determined using the valuation technique. Any such differences are subsequently recognised in profit or loss only to the extent that they relate to a change in the factors (including time) that market participants would consider in setting the price.

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Accounting Policies

Financial instruments include cash and bank balance, investments, trade receivables and borrowings. The municipality classifies its financial assets as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discount) through the expected life of the financial asset, or, where appropriate a shorter period.

1.10.1 FINANCIAL ASSETS

Financial assets are recognised in the municipality's statement of financial position when the municipality becomes a party to the contractual provisions of an instrument. Regular way purchases and sales of financial assets are recorded on the trade date.

The municipality classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, held-to-maturity as well as available for sale. All financial assets that are within the scope of IAS 39 are classified into one of the four categories.

1.10.1.1 Financial assets at fair value through profit and loss

An instrument is at fair value through profit or loss if it is held for trading or designated as such. Purchase or sale decisions with regard to these investments are managed in accordance with the municipality's documented risk or investment strategy. Financial assets at Fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the statement of financial performance. The net gain or loss recognised in the statement of financial performance incorporates any dividend or interest earned on the financial asset.

1.10.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities in excess of 12 months. These are classified as non-current assets. They include short-term receivables, such as property rates, trade and other receivables, and long-term receivables, such as loans granted. This category may also include financial assets that would have been impaired or past due if the terms of the instrument were not renegotiated.

Loans and receivables are recognised initially at fair value, plus transaction costs. Subsequently items in this category are measured at amortised cost using the effective interest rate, and interest income is included in the statement of financial performance for the period. Net gains or losses represent; reversals of impairment losses, impairment losses, refer to impairment of assets policy as well as gains or losses on derecognition. These net gains and losses are included in the statement of financial performance.

1.10.1.3 Held-to-maturity investments

Debt securities that the Municipality has the expressed intention and ability to hold to a fixed maturity date are recognised on a trade date basis and are initially measured at fair value plus transaction cost.

Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost calculated using the effective interest method.

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Accounting Policies

Investments which include listed government bonds, unlisted municipal bonds, fixed deposits and short term deposits invested in registered banks are stated at cost.

Surplus funds are invested in terms of Council's Investment Policy. Investments are only made with financial institutions registered in terms of the Deposit Taking Institutions Act of 1990 with an A1 or similar rating institution for safe investment purposes.

The investment period should be such that it will not be necessary to borrow funds against the investments at a penalty interest rate to meet commitments.

1.10.1.4 Available for sale assets

Non-derivative assets that do not fall into any of the other categories are classified as available for sale. These financial instruments are stated at fair value plus transaction costs. Fair value is determined with reference to quoted market prices. Gains and losses arising from changes in fair value, with the exception of impairment losses, refer to assets management policy, are recognised directly in equity in the Mark-to-Market reserve.

Dividends on available for sale equity instruments are recognised in the surplus or deficit when the Municipality's right to receive payment is established.

1.10.2 FINANCIAL LIABILITIES

Financial liabilities are recognised in the municipality's statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

The municipality classifies its financial liabilities in the following categories: at fair value through profit or loss and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued/obtained.

1.10.2.1 Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at Fair Value Through Profit or Loss where the financial liability is either held for trading or it is designated as at Fair Value Through Profit or Loss.

Financial liabilities at Fair Value Through Profit or Loss are stated at fair value, with any resultant gain or loss recognised in the statement of financial performance. Interest expense is calculated using the effective interest rate method and included as part of finance costs in the Statement of Financial Performance.

1.10.3 Other financial liabilities

Other financial liabilities, including interest bearing borrowings, are initially measured at fair value, net of transaction costs.

Subsequently, other financial liabilities are measured at amortised cost using the effective rate method, with interest costs being recognised on an effective yield basis.

1.11 INVENTORIES

Inventories are initially measured at cost which cost of inventories comprises of all costs of purchase, costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Sedibeng District Municipality

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Consumable stores, raw materials, work in progress, unused water, and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities.

Redundant and slow-moving stock are identified and written down with regard to their estimated economic or realisable values and sold by public auction. Consumables are written down with regard to age, condition and utility.

Unsold properties are valued at the lower of cost and net realisable value on a specific identification cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

The municipality complied with Directive 4 of February 2008, on initial adoption of the standard of on Inventories, GRAP 12, and has done so retrospectively according to the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The necessary disclosures have been made for non-measurement of inventories in accordance with GRAP 12.

1.12 CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash at bank. Short term investments are included. Bank overdrafts are recorded on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.13 PROVISIONS AND CONTINGENCIES

Provisions are recognised when the municipality has a present or constructive obligation, as a result of past events, that is probable to cause an outflow of resources embodying economic benefits required to settle the obligation and a reliable estimate of the provision can be made.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used in calculating the present value is the interest rate implicit in the transaction. Where this is impractical to determine the average interest rate cost of borrowing rate of the Municipality is used.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is reversed.

The municipality on initial adoption of the standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets has done so retrospectively according to the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Due to the transitional provisions under the Standard of GRAP on Property, Plant and Equipment, certain assets have not been recognised as Property, Plant and Equipment. Due to the non-recognition of such assets, the requirements of the Standard on Provisions, Contingent Liabilities and Contingent assets have not been applied until the expiration the Property, Plant and Equipment transitional provisions. All necessary disclosure for those assets not recognised as Property, Plant and Equipment have been made.

The municipality complied with Directive 4 of February 2008, on initial adoption of the standard of on Provisions, Contingent Liabilities and Contingent Assets, GRAP 19, and has done so retrospectively according to the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Where items have not been recognised in accordance with GRAP 17, Property, Plant and equipment as a result of transitional provisions, which take precedence over the requirements of GRAP 19. The GRAP 17 will have to be complied with first, or transitional provisions of this standard are to expire prior to application of GRAP 19.

The necessary disclosures have been made for non-recognition of provisions (which form part of the cost of an asset).

Sedibeng District Municipality

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1.14 EMPLOYEE BENEFITS

1.14.1 Short-term employee benefits

The cost of short-term employee benefits, which include salaries and wages, short-term compensated absences and profit sharing and bonus plans, are expensed in the Statement of Financial Performance in the financial year during which the payment is made.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expected to pay in exchange for that service that had accumulated at the reporting date.

1.14.2 Termination Benefits

Termination benefits are recognised when actions have been taken that indicate that the municipality is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date; or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

1.14.3 Retirement benefits

The municipality provides retirement benefits for its employees and councilors.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees and councilors have rendered the employment service or served office entitling them to the contributions.

1.14.4 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the municipality pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of financial performance when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

1.14.5 Post employment medical care benefits

The municipality provides post employment medical care benefits to its employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period.

1.15 REVENUE RECOGNITION

Revenue shall be measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, VAT and other similar allowances.

1.15.1 Revenue from exchange transactions

Rendering of services

Sedibeng District Municipality

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Flat rate service charges relating to rental of facilities and the reporting date shall be recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

Interest, royalties and dividends

Interest shall be recognised on a time proportionate basis that takes into account the effective yield on the asset;

Royalties are recognised as they are earned on a time basis is recognised on a straight-line basis over the period of the agreement. Royalty revenue that is based on production, sales and other measures is recognised in accordance with the substance of the relevant agreement; and

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified.

The income recognised is in terms of the agency agreement.

Collection charges are recognised when such amounts are incurred.

The municipality complied with Directive 4 of February 2008, on initial adoption of the standard of on Revenue from Exchange Transaction, GRAP 9, and has done so retrospectively according to the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the purchaser the significant risks and rewards of ownership of goods;
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliable.

1.15.2 Revenue from non-exchange transactions

Grants and donations received

Government Grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by municipalities rendering services.

Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed in their use.

Conditional grants, donations and funding were recognised as revenue in the Statement of Financial Performance to the extent that the Municipality has complied with any criteria, conditions or obligations embodied in the agreement/arrangement. To the extent that the criteria, conditions and obligations have not been met a liability is raised in the Statement of Financial Position. Unconditional grants, donations and funding are recognised as revenue in the Statement of Financial Performance at the earlier of the date of receipt or when the amount is receivable.

Sedibeng District Municipality

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Contributed assets are recognised at fair value when the risks and rewards associated with such assets are transferred to the Municipality.

1.15.3 Transfer revenue

Assets and revenue recognised as a consequence of a transfer at no or nominal cost is measured at the fair value of the assets recognised as at the date of recognition. Non-monetary assets are measured at their fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession.

1.15.4 Other

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councilors or officials is virtually certain.

Revenue from the recovery of unauthorised irregular, fruitless and wasteful expenditure is based on legislated procedures.

1.16 VALUE ADDED TAX

The municipality accounts for Value Added Tax on the cash basis.

1.17 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act 56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), the Public Office Bearers Act (Act 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

1.21 CONSTRUCTION OF ASSETS IN PROGRESS

Sedibeng District Municipality

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Construction of assets in progress is capital projects done on behalf of the Local Municipalities from the proceeds of conditional grants received and internal contributions. These projects are only handed over after full completion of the project and therefore all those uncompleted capital projects will be shown as Construction of assets in progress until date of transfer.

1.22 RELATED PARTIES

Emfuleni Local Municipality, Midvaal Local Municipality and Lesedi Local Municipality are category B municipalities which in terms of the Constitution of South Africa, section 155 (1) (b) means, *"A Municipality that shares executive and legislative authority in its area with a category C municipality within whose area it falls."* Sedibeng District Municipality is performing agency services on behalf of the Local Municipalities.

Sedibeng District Municipality performs an agency function on behalf of the Department of Health related to Ambulance services as well as an agency service with the Department of Transport, Roads and Works related to motor vehicle license renewal fees.

The Municipality does not have and associates nor any joint ventures or any other form of association that may be defined as related party relation.

Sedibeng District Municipality

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2. Property, plant and equipment

	Cost / Valuation	2012 Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	2011 Accumulated depreciation and accumulated impairment	Carrying value
Land	41,907,735	(608,655)	41,299,080	41,907,735	(608,655)	41,299,080
Buildings	72,866,451	(8,176,676)	64,689,775	72,653,251	(5,738,828)	66,914,423
Furniture and fixtures	15,572,819	(11,675,252)	3,897,567	15,010,431	(10,501,683)	4,508,748
Motor vehicles	10,134,059	(5,753,465)	4,380,594	12,111,460	(5,984,223)	6,127,237
Electronic equipment	32,372,675	(11,962,447)	20,410,228	22,723,171	(8,541,550)	14,181,621
Infrastructure	71,796,612	(25,868,354)	45,928,258	68,796,613	(14,763,303)	54,033,310
Plant and equipment	8,610,440	(5,530,133)	3,080,307	9,468,404	(4,528,615)	4,939,789
Specialised vehicles	699,972	(151,996)	547,976	745,973	(158,456)	587,517
Total	253,960,763	(69,726,978)	184,233,785	243,417,038	(50,825,313)	192,591,725

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Land	41,299,080	-	-	-	41,299,080
Buildings	66,914,423	213,200	-	(2,437,848)	64,689,775
Furniture and fixtures	4,508,748	699,135	(14,270)	(1,296,046)	3,897,567
Motor vehicles	6,127,237	-	(149,964)	(1,596,679)	4,380,594
Electronic equipment	14,181,621	11,191,319	(53,505)	(4,909,207)	20,410,228
Infrastructure	54,033,310	2,999,999	-	(11,105,051)	45,928,258
Plant and equipment	4,939,789	31,420	(180,630)	(1,710,272)	3,080,307
Specialised vehicles	587,517	-	(9,176)	(30,365)	547,976
	192,591,725	15,135,073	(407,545)	(23,085,468)	184,233,785

Reconciliation of property, plant and equipment – 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Land	41,299,080	-	-	-	41,299,080
Buildings	68,683,927	640,412	-	(2,409,916)	66,914,423
Furniture and fixtures	4,119,665	2,427,801	(12,670)	(2,026,048)	4,508,748
Motor vehicles	4,415,997	3,163,648	(32,930)	(1,419,478)	6,127,237
Electronic equipment	5,766,453	10,535,418	(120,964)	(1,999,286)	14,181,621
Infrastructure	44,239,324	17,246,200	-	(7,452,214)	54,033,310
Plant and equipment	5,070,803	1,412,305	-	(1,543,319)	4,939,789
Specialised vehicles	311,296	292,882	-	(16,661)	587,517
	173,906,545	35,718,666	(166,564)	(16,866,922)	192,591,725

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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3. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4,388,571	(2,465,518)	1,923,053	3,524,145	(1,204,455)	2,319,690

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software, other	2,319,690	864,426	(1,261,063)	1,923,053

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	3,132,491	245,948	(1,058,749)	2,319,690

4. Construction of Assets in Progress

These assets will either be transferred to the Local Municipalities or capitalised in the books of Sedibeng once the functions are resolved and the asset has been completed and finally verified by the Local Municipality.

EVATON PEDESTRIAN SIDEWALKS	3,109,698.63
ROAD SIGNAGE	3,169,570.49
SHARVILLE COMMUNITY HALL	4,727,916.79
SHARVILLE POLICE STATION	311,828.38
SHARVILLE EXHIBITION CENTRE	2,020,057.17
SHARVILLE CONSTITUTIONAL WALK	18,321,382.24
VARIOUS SPORT FIELDS -LESEDI	392,634.83
TOTAL	32,053,088.53

5. Inventories

Fuel - Airport	307,522	370,013
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6. Receivables from exchange transactions

Trade debtors	1,000,830	640,932
Employee costs in advance	-	85,392
Prepayments (if immaterial)	104,550	107,089
VAT on Accruals	150,162	1,464,614
Government subsidies	-	16,985,000
Local Municipalities - Agency services	2,921,678	2,959,591
FMG Bridging Finance	66,391	-
Insurance Claim	768,465	-
HIV and AIDS Bridging Finance	-	646,939
MSIG Bridging Finance	422,417	-
	5,434,493	22,889,557

The insurance claim of R 768,465 was a claim lodge for air quality equipment stolen and the claim was settled in July 2012. Government subsidies of R16,985,000 related to the previous year was settled in the current year whereby the funds related to Emergency Medical Services subsidies.

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Trade debtors

Current (0 – 30 days)	950,754	580,437
31 – 60 days	27,154	28,249
61 – 90 days	20,302	32,947
>91	672,999	1,330,817
Less: Provision for Debt Impairment	(670,379)	(1,331,518)
Total Trade Debtors	1,000,830	640,932

Employee Cost in Advance

Current (0 – 30 days)	-	85,392
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Pre-payments

Current (0 – 30 days)	104,550	107,089
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Vat on Accruals

Current (0 – 30 days)	150,162	1,464,614
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Government Subsidies

91 – 120 days	-	8,492,500
>120 days	-	8,492,500
Total Government Subsidies		16,985,000

Local Municipality Agency services

Current (0 – 30 days)	1,195,675	703,636
31 – 60 days	504,543	624,677
61 – 90 days	542,680	590,602
91 – 120 days	678,780	478,666
>120 days	-	562,010
Total Local Municipality Agency services	2,921,678	2,959,591

FMG Bridging Finance

Current (0 – 30 days)	66,391	-
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Insurance claim

Current (0 – 30 days)	768,465	-
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HIV and AIDS Bridging Finance

Current (0 – 30 days)	-	646,939
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MSIG Bridging Finance

Current (0 – 30 days)	422,417	-
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7. VAT receivable

VAT	1,125,614	4,590,801
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8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	40,125	40,125
Cash book balances	12,418,653	22,024,261
Investment deposits	33,218	20,364,319
	12,491,996	42,428,705

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The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA BANK - Account Type - Primary Bank Account	3,007,702	3,583,679	10,603,511	2,707,511	3,503,814	10,306,855
ABSA BANK - Account Type - Licence Fuction Bank Account	9,184,364	16,563,063	12,541,510	9,711,142	18,520,447	12,541,510
ABSA BANK - Account Type - RSC Levy Bank Account	-	-	425,174	-	-	425,174
Total	12,192,066	20,146,742	23,570,195	12,418,653	22,024,261	23,273,539

The Municipality had the following short term investment deposits at year end

Standard Bank - 228499054 SERIAL 002	-	20,271,994
Absa Call Account - 9085796427	33,218	92,325
	33,218	20,364,319

9. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2012

	Government grant reserve	Total
Opening balance	3,307,432	3,307,432
Offsetting of depreciation	(744,491)	(744,491)
Capital grants used to purchase property, plant and equipment	356,086	356,086
Asset Disposal/Transfer	(227,196)	(227,196)
	2,691,831	2,691,831

Ring-fenced internal funds and reserves within accumulated surplus - 2011

	Government grant reserve	Total
Opening balance	3,794,388	3,794,388
Offsetting of depreciation	(726,995)	(726,995)
Capital grants used to purchase property, plant and equipment	277,087	277,087
Asset Disposal	(37,048)	(37,048)
	3,307,432	3,307,432

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Provincial Grants	9,723,103	10,322,119
National Grants	1,362,476	21,575,280
DLG Grants	1,707,487	1,842,654
	12,793,066	33,740,053

Movement during the year

Balance at the beginning of the year	33,740,053	32,838,449
Additions during the year	16,133,000	43,525,900
Income recognition during the year	(37,079,987)	(42,624,296)
	12,793,066	33,740,053

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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See note 15 for reconciliation of grants from National/Provincial Government.

These amounts are invested until utilised.

11. Provisions

The following provisions related to performance bonuses not yet finalized and a further provision for employees older than 50 who are entitled for early pension whereby a pro rata bonus amount is payable on retirement. This amount is calculated on the current salary of each employee.

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Performance Bonus	1,141,900	784,800	1,926,700
Retirement Bonus	829,051	-	829,051
	1,970,951	784,800	2,755,751

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Performance Bonus	1,141,900	-	1,141,900
Retirement Bonus	685,235	143,816	829,051
	1,827,135	143,816	1,970,951

12. Payables from exchange transactions

Trade payables	4,053,535	15,447,338
Accrued leave pay	17,793,201	16,739,201
Operating lease liabilities	24,670	84,217
Department of Transport (License fees)	15,204,748	15,118,232
Local Municipalities Accounts	4,694,178	6,582,552
Retention on Capital Projects	1,039,626	1,618,832
Compensation Commissioner	-	1,563,185
Mayoral Event	98,800	98,800
Ambulance fees in advance	87,262	87,122
Refundable town hall rental deposits	107,844	71,749
Unclaimed Salaries	25,199	25,199
Salaries accrual 3 rd party	2,997,268	-
Unknown deposits	137,045	134,598
VAT on trade receivables	405,158	365,774
	46,668,534	57,936,799

13. Revenue

Sale of goods	1,217,207	321,965
Income from agency services	6,963,365	6,496,536
Licenses and permits	59,605,708	49,309,873
Government grants & subsidies	292,212,987	290,229,183
	359,999,267	346,357,557

The municipality is selling AVGAS and JET A1 fuel at the Vereeniging Airport as part of enhancing service delivery to a specific community group which forms part of Sale of Goods

The amounts included in revenue arising from exchanges of goods or services are as follows:

Sale of goods	1,217,207	321,965
Rental of facilities & equipment	7,799,499	7,695,109
Income from agency services	6,963,365	6,496,536
Licences and permits	59,605,708	49,309,873

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	75,585,779	63,823,483
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The amounts included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Levies	292,212,987	290,229,183
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14. Cost of sales

Sale of goods

Cost of goods sold - Avgas Fuel	1,349,956	413,976
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This expense forms part of general expenditure as per note 17

15. Government grants and subsidies

Equitable share	220,439,000	213,221,000
Ambulance Subsidies	34,694,000	33,970,000
Support Grants	37,079,987	43,038,183
	292,212,987	290,229,183

Equitable Share

Current-year receipts	(220,439,000)	(213,221,000)
Conditions met - transferred to revenue	220,439,000	213,221,000
	-	-

Emergency Medical Services

Current-year receipts	(34,694,000)	(33,970,000)
Conditions met - transferred to revenue	34,694,000	33,970,000
	-	-

Provincial Grants

Balance unspent at beginning of year	10,322,119	10,654,036
Current-year receipts	8,083,000	4,427,900
Conditions met - transferred to revenue	(8,682,016)	(4,759,817)
	9,723,103	10,322,119

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Reconciliation of Unspent Conditional Grants

	Opening Balance July 2011	Grants Received 2011/12	Grants Spent 2011/12	Unspent Grants June 2012
LED PROJECT	(1,700,000)			(1,700,000)
HIV/AIDS	0	(4,813,000)	1,558,624	(3,254,376)
IMPL TOURISM INST FRAMEWORK	(300,000)		0	(300,000)
DEPT AGRICULTURE & RURAL DEV	(280,000)	(270,000)	0	(550,000)
SHARPEVILLE COMMUNITY HALL	(6,934,489)		6,288,294	(646,195)
LOTTO - SPORT	0	(3,000,000)	392,635	(2,607,365)
CRAFT HUB ESTABLISHMENT	(807,630)		311,828	(495,802)
TOURISM BIRDING ROUTE	(300,000)		130,636	(169,364)
	(10,322,119)	(8,083,000)	8,682,016	(9,723,103)

The HIV and AIDS grant were received during June 2012 and therefore the limited expenditure shown.

National Grants

Balance unspent at beginning of year	21,575,280	19,349,833
Current-year receipts	8,050,000	39,098,000
Conditions met - transferred to revenue	(28,262,804)	(36,872,553)
	1,362,476	21,575,280

Reconciliation of Unspent Conditional Grants

	Opening Balance July 2011	Grants Received 2011/12	Grants Spent 2011/12	Unspent Grants June 2012
URBAN ENVIRONMENTAL MANAGENT PROGRAM (DANIDA)	(131,100)		120,485	(10,615)
MUN IMPR SYS GRANT	0	(800,000)	800,000	0
MUNICIPAL FINANCE MANAGEMENT GRANT	(38,256)	(1,250,000)	1,288,256	0
NDPG PROJECT	(21,405,923)	(6,000,000)	26,054,063	(1,351,861)
	(21,575,280)	(8,050,000)	28,262,804	(1,362,476)

DLG Grants

Balance unspent at beginning of year	1,842,654	2,834,580
Conditions met - transferred to revenue	(135,167)	(991,926)
	1,707,487	1,842,654

Reconciliation of Unspent Conditional Grants

	Opening Balance July 2011	Grants Received 2011/12	Grants Spent 2011/12	Unspent Grants June 2012
SHARPEVILLE PUBLIC LIBRARY	(733,783)		135,167	(598,617)
MSP	(359,497)		0	(359,497)
ENVIRONMENTAL	(121,474)		0	(121,474)
CONSTRUCTION OF TEA-TEA ROAD	(627,899)		0	(627,899)
	(1,842,654)	0	135,167	(1,707,487)

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Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

16. Other income

Ad hoc income	488,230	139,037
Skills levy income	-	124,046
Ambulance fees	443,661	442,017
Tender income	52,561	153,246
Commission on salaries	188,428	147,347
Telephone cost recovered	207,913	157,974
	1,380,793	1,163,667

17. General expenses

Advertising	973,041	1,091,628
Assessment rates & municipal charges	5,107,054	6,728,443
Auditors remuneration	2,925,529	2,018,762
Bank charges	792,977	662,276
Computer expenses	1,796,359	2,363,111
Consulting and professional fees	3,034,671	6,714,995
Consumables	807,197	1,061,427
Debt collection	-	2,743,294
Entertainment	760,183	505,997
Insurance	2,818,721	2,453,864
Lease rentals on operating lease	5,894,286	8,278,263
Marketing	-	2,841,587
Magazines, books and periodicals	233,288	261,805
Fuel and oil	1,150,853	826,722
Postage and courier	10,368	13,449
Printing and stationery	2,654,849	2,594,941
Promotions	2,074,482	3,392,160
Protective clothing	193,789	912,952
Royalties and license fees	3,621,015	2,276,190
Staff welfare	176,050	187,478
Subscriptions and membership fees	1,421,325	1,296,466
Telephone and fax	3,729,482	4,167,686
Training	746,842	1,970,722
Travel	1,860,191	2,131,845
Campaigns	-	681,430
Office refreshments	382,808	486,061
Workshops	7,114,980	8,867,245
Congresses & Meetings	422,945	504,009
Grant related expenses	2,117,391	16,777,565
External bursaries	413,308	492,000
Donations & grants	472,112	992,462
Catering expenses	2,527,194	1,556,819
Sale of goods - Aircraft fuel	1,349,956	413,976
	57,583,246	88,267,630

18. Employee related costs

Employee related costs exclusive of Section 57 employees	141,468,141	138,410,255
Medical aid - company contributions	12,566,370	11,510,204
UIF	1,157,801	1,188,621
WCA	1,803,450	1,563,185
SDL	1,772,745	1,774,466
Other payroll levies	2,698,069	2,731,895

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Leave pay charge	2,565,817	4,142,851
Post-employment benefits - Pension - Defined contribution plan	28,691,427	27,306,816
Overtime payments	5,078,430	9,073,410
13th Cheques	11,735,255	14,777,634
Car allowance	9,174,893	10,890,088
Housing benefits and allowances	1,270,591	1,133,404
Telephone Allowances	500	500
Standby Allowance	1,820,817	1,904,083
	221,804,306	226,407,412

Remuneration of Municipal Manager

Annual Remuneration	978,092	897,906
Car Allowance	119,784	119,784
Contributions to UIF, Medical and Pension Funds	88,675	83,666
	1,186,551	1,101,356

Remuneration of Chief Finance Officer

Annual Remuneration	593,410	556,417
Car Allowance	122,000	120,000
Contributions to UIF, Medical and Pension Funds	167,500	159,772
Housing Allowance	4,800	4,800
	887,710	840,989

Remuneration of Executive Directors

Annual Remuneration	2,849,073	2,277,043
Car Allowance	372,348	372,348
Contributions to UIF, Medical and Pension Funds	303,377	294,070
	3,524,798	2,943,461

Remuneration of Chief Operating Officer

Annual Remuneration	943,005	894,007
Contributions to UIF, Medical and Pension Funds	46,013	43,746
	989,018	937,753
Total	228,392,383	232,230,971

19. Remuneration of Councilors

Executive Mayor	694,124	656,507
Mayoral Committee Members	4,454,813	3,963,438
Speaker	574,916	527,510
Councillors	2,866,775	2,449,887
Councilors' pension contribution	816,447	771,313
	9,407,075	8,368,655

Benefits-in-kind

The Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties.

The Executive Mayor and Speaker have full-time bodyguards.

20. Debt impairment

Debt impairment	93,999	37,761
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21. Investment revenue

Interest revenue

Bank	2,221,854	6,237,003
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22. Depreciation and amortisation

Property, plant and equipment	22,340,978	16,153,659
Intangible assets	1,261,063	1,045,019
	23,602,041	17,198,678

23. Finance costs

Council currently do not have any financial leases

24. Auditors' remuneration

Fees	2,925,529	2,018,762
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25. Contracted services

Specialist Services	15,883,633	11,747,604
Security services Contract	15,014,886	13,688,494
Facility Contracts	1,642,103	2,330,960
Utility Contracts	3,838,438	2,352,919
Local Economic Development & Growth Development Strategy Contracts	1,335,422	413,887
Other Contracts	5,008,595	6,539,045
	42,723,077	37,072,909

26. Grants and subsidies paid

Other subsidies

Grants paid to Local Municipalities	250,000	84,710,637
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27. Cash used in operations

Surplus (deficit)	4,425,113	(114,344,628)
Adjustments for:		
Depreciation	23,602,041	17,198,678
Loss / (Gain) on sale of assets and liabilities	(1,161,731)	(107,092)
Debt impairment	93,999	37,761
Movements in provisions	784,800	143,816
Government grant reserve movement	128,889	240,036
Changes in working capital:		
Inventories	62,491	(259,619)
Receivables from exchange transactions	17,455,064	(13,570,968)
Consumer debtors	(93,999)	(37,761)
Construction of Assets in Progress	(32,053,089)	33,205,456
Payables from exchange transactions	(11,268,265)	33,416,019
VAT	3,465,187	3,324,042
Unspent conditional grants and receipts	(20,946,987)	901,604
	(15,506,487)	(39,852,656)

28. Commitments

Authorized capital and operating expenditure

Unspent conditional grants and receipts

Provincial Grants	9,723,103	10,322,119
National Grants	1,362,476	21,575,280

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DLG Grants	1,707,487	1,842,654
	12,793,066	33,740,053

The current unspent conditional grants are all committed funds which still need to be utilized in order to meet the conditions as stipulated in the various government gazettes.

Operating leases - as lessee (expense)

Minimum lease payments due

- Later than one year and not later than five years	7,171,424	7,323,949
- Later than 5 years	-	1,120,720
Less: Future Finance charges	59,547	(21,031)
	7,230,971	8,423,638

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

29. Contingencies

Contingent Liability

The Municipality may be liable for claims instituted against the Municipality by employees who have disputes against the Municipality. The amount is uncertain as an arbitration award has not yet being issued against those claims.

There is currently a dispute between Sedibeng District Municipality and the Gauteng Department of Transport relating to the treatment of VAT on agency services. Council may be liable for an amount of R 34,720,142.

Contingent assets

The 2006 financial year VAT review has not yet been finalized and an amount of R2,6 Million might be recovered from the South African Revenue Service.

Emergency Medical Services is the process of being transferred to the Department of Health whereby unfunded expenditure related to the previous year's might be recoverable which amounts to R 43,694,068.

A change in legislation regarding the treatment of UIF payments relating to Councilors resulted in a possible refund to Council which amounts to R 83,823 for the period.

30. Prior period errors

The correction of the error(s) results in adjustments as follows:

The municipality has done a vat review exercise and revenue relating to prior period was discovered. Corrections in this regard were made which effect the prior periods. License fees were also recalculated based on a VAT ruling pending while previous year creditors were under and over stated and were rectified accordingly.

Statement of changes in net assets

Opening Balance 1 July 2010	247,411,977
License revenue understated	18,594,021
VAT recovery Prior periods	16,573,887
Restated Closing balance 1 July 2010	282,579,886
Surplus (Deficit) for the year 2011	-118,084,260
License revenue understated	6,055,598
Creditors under provided	-2,660,989
Creditors over provided	345,023
Restated Surplus (deficit) for the year 2011	-114,344,628

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31. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

32. Going concern

We draw attention to the fact that at 30 June 2012, the Municipality had accumulated surplus of R172,660,370 and that the Municipality's current liabilities exceed its current assets by R10,804,637

In addition SDM has over the last two and a half years implemented a cost containment strategy which purported to place austerity measures within the municipality to save costs. The process is ongoing and the fruits of the outcome has generated a substantial saving in our budget.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business

33. Events after the reporting date

A decision was made by the Provincial Department of Health that Emergency Medical Services will return to Province with the target date being March 2012. Based on a consent order obtained from the high court the provincialisation has been re-scheduled to be finalized by the end of August 2012. This will resolve the unfunded portion currently in dispute with the Department of Health.

It has been identified that land is incorrectly registered at the Deeds Office in the name of Sedibeng District Municipality. These properties need to be transferred to their rightful owner, Emfuleni Local Municipality.

34. Unauthorised expenditure

None incurred in reporting period

35. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

Current year subscription / fee	32,104,375	32,270,670
Amount paid - current year	(32,104,375)	(32,270,670)

Pension and Medical Aid Deductions

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Current year subscription / fee	61,957,138	57,431,587
Amount paid - current year	(61,957,138)	(57,431,587)
	-	-

VAT

VAT receivable	1,125,614	4,590,801
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All VAT returns have been submitted by the due date throughout the year.

36. Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed in the appendix "A" have been condoned.

36.1 Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The expenses incurred as listed in the appendix "A" have been condoned.

36.2 Declaration of business conducted to close family members of persons in the service of the state

The below table list the awards to close family members of persons in the service of the state and awards to persons in the service of the state.

1. Awards to close family members of persons in the service of the state

Company Name	Initials	Surname	Designation and Employee NO.	Relationship with the company	Amount Paid
Panorama Bloemiste CC	CS	Heunes	Senior Accountant Expenditure 17530	Spouse to the Director/Shareholder	R 6,710.00
Servigyn 13 CC	N	Monga	Senior Technician: IT	Son to the Director/Shareholder	R 31, 981.14

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2. Awards to persons in the service of the state

Company Name	ID NO.	Initials & Surname	Current Employer	Amount Paid
Vaal Community Radio NPC	7304290329084	I Honoko	Sedibeng District Municipality	R 20,143.80
	5601017441080	MI Kolokoto	Sedibeng District Municipality	
Mahlake Kabamba Construction and Projects CC	7204015500086	GM Mtembu	Free State Department of Education	R 79, 541.15
Bongani Makhunga Trading Enterprises CC	6705290400082	MM Kubekha	Free State Department of Education	R 12, 491.76
Lelwala Distributors CC	6701200271085	PI Mokoena	Free State Department of Education	R 18,339.45
Tiisetsoand Reuben Trading Enterprise CC	6501095399086	MR Mokele	Free State Department of Education	R 19,820.00
Tiaco Trading CC	72050606088080	PM Lethoba	Free State Department of Education	R 41,405.60

37. Television sets in terms of the Television License Regulations under the Broadcasting act no 4 of 1999, as amended

Description	Number of sets	Period that sets were in entity's possession
Owned television sets	34	32 sets were used for the full year; 2 set were added during the year
Rented or leased television sets	-	
Number of sets donated/ alienated	-	
TOTAL	34	

38. Related party transactions

The Council is rendering information technology services to both Emfuleni and Midvaal local municipalities. Claims towards actual salary expenses have been lodged on a monthly basis whereby the cost incurred for the year was as follow:

Emfuleni Local Municipality	R 5,615,823
Midvaal Local Municipality	R 1,347,542

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39. Statement of comparative and actual information

FINANCIAL PERIOD 2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Investment revenue	7,885,260	2,939,301	2,939,301	2,221,854	717,447	76%	28%
Transfers recognised - operational	275,088,000	276,254,000	276,254,000	292,212,987	(15,958,987)	106%	106%
Other own revenue	82,881,611	77,704,436	77,704,436	78,128,303	(423,867)	101%	94%
Total revenue (excluding capital transfers and contributions)	365,854,871	356,897,737	356,897,737	372,563,144	(15,665,407)	104%	102%
Employee costs	(242,243,900)	(229,369,406)	(229,369,406)	(228,392,383)	(977,023)	100%	94%
Remuneration of councillors	(8,866,449)	(9,622,141)	(9,622,141)	(9,407,075)	(215,066)	98%	106%
Debt impairment	-	(100,000)	(100,000)	(93,999)	(6,001)	94%	%
Depreciation and asset impairment	(8,000,000)	(23,693,552)	(23,693,552)	(23,602,041)	(91,511)	100%	295%
Transfers and grants	-	(8,540,000)	(8,540,000)	(250,000)	(8,290,000)	3%	%
Other expenditure	(94,890,387)	(113,311,691)	(113,311,691)	(106,392,533)	(6,919,158)	94%	112%
Total expenditure	(354,000,736)	(384,636,790)	(384,636,790)	(368,138,031)	(16,498,759)	96%	104%
Surplus/(Deficit)	11,854,135	(27,739,053)	(27,739,053)	4,425,113	(32,164,166)	(16)%	36%
Transfers recognised - capital	2,310,000	8,340,000	8,340,000	-	8,340,000	-%	-%
Surplus/(Deficit) for the year	14,164,135	(19,399,053)	(19,399,053)	4,425,113	(23,824,166)	(23)%	30%

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39. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	45,070,450	23,750,450	23,750,450	15,999,500	7,750,950	67%	35%
Cash flows							
Net cash from (used) operating	22,164,135	(4,205,501)	(4,205,501)	(15,506,487)	11,300,986	369%	(70)%
Net cash from (used) investing	(48,215,450)	(6,765,450)	(6,765,450)	(14,430,223)	7,664,773	213%	30%
Net increase/(decrease) in cash and cash equivalents	(26,051,315)	(10,970,951)	(10,970,951)	(29,936,710)	18,965,759	273%	115%
Cash and cash equivalents at the beginning of the year	42,428,705	42,428,705	42,428,705	42,428,705	-	100%	100%
Cash and cash equivalents at year end	16,377,390	31,457,754	31,457,754	12,491,995	18,965,759	40%	76%